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Cotton and Products

Annual

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Report Highlights:

Cotton output is forecast to expand in CY 2004/05 as a result of increased production area, improved yields and growing adoption of new production technologies, like hybrid cotton varieties. Notwithstanding, cotton imports are likely to remain high over the next few years. Total Philippine demand for cotton is expected to remain unchanged in the near future even with the new liberalized trading environment for garments and textiles. The Department of Agriculture approved the field-testing of Chinese *Bacillus thuringiensis* (Bt) cotton in February 2005.

Includes PSD Changes: Yes
Includes Trade Matrix: No
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Executive Summary

Cotton output is forecast to expand in CY 2004/05 as a result of increased production area, improved yields and growing adoption of new production technologies, like hybrid cotton varieties. Notwithstanding, cotton imports are likely to remain high over the next few years. Total Philippine demand for cotton is expected to remain unchanged in the near future even with the new liberalized trading environment for garments and textiles. The Department of Agriculture (DA) approved the field-testing of Chinese *Bacillus thuringiensis* (Bt) cotton in February 2005.

Production

Philippine cotton lint output is forecast to rise in CY 2004/05 mainly as a result of increased production area, particularly in Mindanao, an improvement in yield through the adoption of hybrid cotton varieties. At present, it is estimated that the Philippines produces about five percent of its total cotton requirements.

The Cotton Development Administration (CODA) under the Philippine DA has disclosed that total production area for cotton expanded from 1,948 ha CY 2003/04 to 4,921 ha this crop year. As a result of the expansion of total area, output of cotton lint is projected to reach 2000 MT this crop year, up from 900 MT produced in the same period last year. Post adjusted CY 2003/04 cotton production upwards to reflect higher reported yields achieved last year.

Average domestic cotton prices during the first 3 months of 2005 dropped to P57/kg (\$1.05/kg) from P68.75/kg (\$1.25/kg) a year ago.

Average Philippine Cotton Prices¹		
YEAR	Seed Cotton Pesos/kg	Lint Pesos/kg
2003	19.00	65.00
2004	19.33	68.75
2005 ²	18.80	57.00

Source: Primatex Fibre Corporation

CODA targets production area to expand to 10,000 ha in CY 2005/06. However, given a reported weakening in cotton prices during the first three months of the year, Post forecasts a smaller actual production area will be planted than government estimates. Cotton output next year is expected to increase as a result of the increased hectareage.

In the last five years, cotton production area has risen by 60 percent from 2,000 ha in CY 1997/98 to close to 5,000 ha at present with Mindanao (4,310 ha) contributing the most, followed by Visayas (410 ha) and Luzon (210 ha). Reported average cotton yield has nearly doubled, from 678 kg/ha in CY 1997/98 to 1,220 kg/ha last year. The growing adoption of new production technologies, specifically hybrid cotton varieties, has also contributed to the rise in output. At present, CODA estimates that only 5-10 percent of total production is of the hybrid cotton variety, but producer adoption rate is expected to pick up.

¹ Prices paid to farmers

² January to March 2005

Consumption

According to the National Economic Development Authority (NEDA), Philippine gross domestic product (GDP) rose by 6.1 percent in 2004, the fastest since the 6.2 percent growth rate recorded in 1989 and outpacing the 2003 expansion of 4.7 percent. Gross national product (GNP) rose by 6.1 percent in 2004 despite the slower growth of income from abroad as a result of the decline in the number and deployment of overseas Filipino workers. Heightened personal consumption expenditures (PCE) continued to drive overall economic growth in 2004 as it climbed at a faster pace of 5.8 percent from the 5.3 percent growth in 2003.

However, according to analysts, 2004 GDP growth will be hard to surpass because of higher interest and inflation rates as well as a possible slowdown of the global economy. Economic growth in the Philippines is expected to slow to 5.0 percent this year, lower than the government target of 5.3-6.3 percent. Higher inflation rates are projected in 2005 due to rising oil prices which will likely dampen consumer spending.

As a result of projected weakness in the domestic economy, cotton consumption is expected to remain relatively flat. Demand is forecast to remain unchanged despite the end of the Multifiber Arrangement (MFA) quota system for garments and textiles in January 2005. The Philippines, a major quota recipient under the MFA, exported about \$2.7 billion of garments and textiles in 2004, over 70 percent of which went to the United States.

COMPARATIVE EXPORT SALES OF GARMENTS AND TEXTILE (in FOB Value USD) DEC. 31, 2003 – 2004 (Preliminary Report as of February 15, 2005)					
COUNTRIES	YEAR-TO-DATE				
	AS OF DEC. 31, 2003 Based on BLs/AWBs	% SHARE	AS OF DEC. 31, 2004 Based on TECs	% SHARE	% INC (DEC) 2004/2003
QUOTA COUNTRIES	<u>2,324,306,602.04</u>	88.85	<u>2,367,905,157.90</u>	88.50	1.88
USA	1,926,155,520.81	73.63	1,889,163,883.71	70.61	(1.92)
EEC	334,483,809.30	12.79	404,324,655.63	15.11	20.88
CANADA	63,667,271.93	2.43	74,416,618.56	2.78	16.88
NON-QUOTA* COUNTRIES	<u>291,652,221.51</u>	11.15	<u>307,572,813.25</u>	11.50	5.46
TOTAL	<u>2,615,958,823.55</u>	100.00	<u>2,675,477,971.15</u>	100.00	2.28

Source: Garments and Textiles Export Board, Department of Trade and Industry

Trade

Without any substantial increases in domestic cotton production, cotton lint imports are expected to remain high. In CY 2003/04, the Philippines imported about 30,500 MT, or over 90 percent, of its domestic cotton requirements. The United States supplied over 63 percent of Philippine imports. Imports of cotton lint are likely to increase slightly in CY 2004/05 as year-to-date imports already indicate a rise over the previous year's level.

A significant portion of cotton imports is consumed by the local textile milling industry for its garment production. In 2004, the Philippines exported about \$2.7 billion worth of apparel (88 percent), textiles (5 percent) and non-apparel items (7 percent) abroad. Philippine imports include combed/carded cotton, fabrics, thread and yarn.

The garments and textile industry of the Philippines is generally optimistic that it will be able to compete in a quota-less environment. The current trading situation is not expected to have any dramatic impact on imports of cotton in the near future.

Comparative Export Sales of Garments and Textiles (in FOB Value USD) December 31, 2003 – 2004 by Major Product Groups (Preliminary Report as of February 15, 2005)					
COUNTRIES	YEAR-TO-DATE DEC. 31, 2003 – 2004				
	AS OF DEC. 31, 2003 based on BLs/AWBs	% SHARE	AS OF Dec. 31, 2004 based on TECs	% SHARE	% INC (DEC) 2004/ 2003
QUOTA COUNTRIES	<u>2,324,306,602.04</u>	88.85	<u>2,367,905,157.90</u>	88.50	1.88
APPAREL	2,078,961,076.95	79.47	2,142,633,471.48	80.08	3.06
NON-APPAREL	165,209,271.51	6.32	164,970,150.37	6.17	(0.14)
TEXTILE	80,136,253.58	3.06	60,301,536.05	2.25	(24.75)
USA	<u>1,926,155,520.81</u>	73.63	<u>1,889,163,883.71</u>	70.61	(1.92)
APPAREL	1,718,930,175.31	65.71	1,703,707,254.86	63.68	(0.89)
NON-APPAREL	137,270,455.02	5.25	135,145,176.42	5.05	(1.55)
TEXTILE	69,954,890.48	2.67	50,311,452.43	1.88	(28.08)
EEC	<u>334,483,809.30</u>	12.79	<u>404,324,655.63</u>	15.11	20.88
APPAREL	300,884,568.03	11.50	369,760,805.13	13.82	22.89
NON-APPAREL	24,934,163.23	0.95	26,902,291.15	1.01	7.89
TEXTILE	8,665,078.04	0.33	7,661,559.35	0.29	(11.58)
CANADA	<u>63,667,271.93</u>	2.43	<u>74,416,618.56</u>	2.78	16.88
APPAREL	59,146,333.61	2.26	69,165,411.49	2.59	16.94
NON-APPAREL	3,004,653.26	0.11	2,922,682.80	0.11	(2.73)
TEXTILE	1,516,285.06	0.06	2,328,524.27	0.09	53.57
NON-QUOTA COUNTRIES	<u>291,652,221.51</u>	11.15	<u>307,572,813.25</u>	11.50	5.46
APPAREL	211,913,997.00	8.10	218,090,521.16	8.15	2.91

NON-APPAREL	23,627,360.46	0.90	26,021,271.31	0.97	10.13
TEXTILE	56,110,864.05	2.14	63,461,020.78	2.37	13.10
-	-	-	-	-	-
TOTAL	<u>2,615,958,823.55</u>	100.00	<u>2,675,477,971.15</u>	100.00	2.28
APPAREL	2,290,875,073.95	87.57	2,360,723,992.64	88.24	3.05
NON-APPAREL	188,836,631.97	7.22	190,991,421.68	7.14	1.14
TEXTILE	136,247,117.63	5.21	123,762,556.83	4.63	(9.16)

Source: Garments and Textiles Export Board, Department of Trade and Industry

Policy

Cotton Industry Roadmap: In 2004, DA approved the Philippine Cotton Industry Roadmap, which seeks to revitalize the domestic cotton industry within 6 years (2004-2010) through mutual cooperation and partnership with various industry stakeholders. The government hopes to substantially increase domestic cotton production and cut down on import dependence.

According to CODA, the roadmap is anchored on six fundamentals for development.

- 1) Critical mass of cotton farmers, credit, ginneries operating at capacity and buying capital are in place;
- 2) Adoption of international practices and trade/business models (i.e., technology, international quality standards, credit and finance facilities);
- 3) Multi-faceted market;
- 4) Private sector-led development;
- 5) Beneficial to all players in the cotton supply chain;
- 6) Free market forces.

Biotechnology: In February 2005, DA signed a Memorandum of Agreement with Biocentury Transgene Company, a Chinese biotechnology company, to conduct field tests for *Bacillus thuringiensis* (Bt) cotton. Also, DA is preparing to test the suitability of the bollworm-resistant Bt cotton developed by China to local conditions. Initial greenhouse testing in the Ilocos Region of the Philippines will commence later this year, followed by actual field tests in selected parts of the country, likely in Mindanao. According to DA, the Biocentury Bt cotton was selected due to the similarity in climatic conditions of China's southern regions to Philippine conditions.

Marketing

On January 1, 2005, the garments and textile quota system (MFA) imposed by the United States and other importing countries, as provided under the Agreement on Textile and Clothing, expired. However, Philippine garments and textile manufacturers and exporters remain optimistic about trade prospects with the United States and other quota-issuing countries. The United States remains the country's largest export market for garments and textiles, accounting for more than 70 percent of total exports of Philippine garments.

Last month, US Census Bureau reported an increase in the total US advance retail sales for the first quarter of 2005, a key indicator of US consumer confidence and spending. Figures showed that garment sales at clothing and clothing accessory stores were particularly strong during the said period, up by 4.6 percent from same period last year.

Garments and Textiles Export Board (GTEB): The GTEB, the Department of Trade and Industry (DTI) agency mandated to administer garments and textile export quotas, was deactivated on 31 December 2004 when the quota regime ended.

Executive Orders 537, 823, and 952 mandated the GTEB to administer export quotas, process import-export documents and issue licenses to operate bonded manufacturing warehouses. It also authorized the agency to undertake bilateral and multilateral negotiations for garments and textile and conduct promotional and developmental activities to optimize use of quota.

Executive Order 285 issued last year, ordered the deactivation of GTEB and the transfer of all its export promotion functions to other DTI agencies. The Bureau of Export Trade Promotion (BETP) assumed all export trade facilitation and advisory functions. The processing of import documents will be transferred to the Bureau of Import Services (BIS).

PSD Table						
Country	Philippines					
Commodity	Cotton				(HECTARES) (MT)	
	Revised	2002	Estimate	2003	Forecast	2004
	Old	New	Old	New	Old	New
Market Year Begin		08/2003		08/2004		08/2005
Area Planted	0	0	0	0	0	0
Area Harvested	2000	2000	2000	4900	0	4900
Beginning Stocks	12846	11276	10015	9176	9580	8876
Production	653	900	653	2000	0	2400
Imports	30264	30500	26127	31200	0	31200
MY Imp. from U.S.	0	0	0	0	0	0
TOTAL SUPPLY	43763	42676	36795	42376	9580	42476
Exports	0	0	0	0	0	0
USE Dom. Consumption	33748	33500	27216	33500	0	33500
Loss Dom. Consumption	0	0	0	0	0	0
TOTAL Dom. Consumption	33748	33500	27216	33500	0	33500
Ending Stocks	10015	9176	9580	8876	0	8976
TOTAL DISTRIBUTION	43763	42676	36796	42376	0	42476